

September 20, 2010

***Via ECFS Electronic Filing***

Marlene H. Dortch, Secretary  
Office of the Secretary  
Federal Communications Commission  
445 12<sup>th</sup> Street, SW, Room TW-A325  
Washington, DC 20554

**Re:    *EX PARTE NOTICE AND REQUEST FOR CONFIDENTIAL  
TREATMENT - Docket Nos. GN 09-51, WC 05-337, WC 10-90***

Dear Ms. Dortch:

In a series of meetings held on September 15, 2010, Rhonda Armstrong and David Clark from Sebastian Corporation (on behalf of its subsidiaries, Kerman Telephone Company and Foresthill Telephone Company) and Linda Burton and Dan Rule from Sierra Telephone met with the following FCC staff members:

Angela Kronenberg – Commissioner Clyburn’s Office  
Zac Katz – Commissioner Genachowski’s Office  
Jennifer Schneider – Commissioner Copps’ Office  
Christy Shewman/Bradley Gillen – Commissioner Baker’s Office  
Amy Bender and Patrick Halley of the Wireline Competition Bureau

The Companies discussed their concerns with the National Broadband Plan (NBP) and proposals related to freezing ICLS, freezing USF support, eliminating access charges, elimination of USF support, and additionally the potential inclusion of non-regulated revenues as offsets to broadband support.

The discussion identified the source of the Companies’ current revenues on a per line basis and the amount of support that is provided from sources such as high cost funds and access. Information was provided on the broadband take rates overall and for low income/lifeline customers. Also shown were the historical earnings of the companies.

Proponents then identified projections through 2020 of net income and free cash flows for Kerman Telephone under four different scenarios proposed by the NBP as identified above, developed through a company model. NECA evaluations through 2020 were also

provided identifying net income and free cash flow for the freezing of ICLS and USF support. NECA evaluations were provided for Kerman's non-regulated service revenues and expenses through 2020. Schedules were provided on a proprietary and confidential basis. Redacted versions are attached hereto. The attendees discussed how these proposals would impact the companies financially, as well as their ability to adapt to each outcome (including the need to cut expenses or investment to maintain services / stay viable and the negative impacts this might have on customers). Effectively, the proposals of the NBP could leave many rural companies critically impaired financially, damage the ability to maintain quality service, and curtail investment in many rural areas.

The September 15<sup>th</sup> Presentation included highly sensitive financial information that is ordinarily privileged and confidential, but that was shared with the Commission's staff to facilitate candid discussions. The disclosure of this information to the public would likely cause substantial competitive and financial harm to the Companies, and is therefore exempted from mandatory disclosure under Exemption 4 of the Freedom of Information Act ("FOIA Exemption 4")<sup>1</sup> and Section 0.457(d) of the Commission's rules.<sup>2</sup> Accordingly, pursuant to Sections 0.457 and 0.459 of the Commission's rules,<sup>3</sup> the Companies request that the Commission withhold from public inspection and accord confidential treatment to the unredacted version of their presentation. In support of their request for confidential treatment and pursuant to the requirements of Section 0.459(b) of the Commission's rules, Sebastian (on behalf of Kerman Telephone Co. and Foresthill Telephone Co.) and Sierra Telephone state the following:

1. The Companies seek confidential treatment for the unredacted version of their September 15<sup>th</sup> Presentation.
2. The information contained in the September 15<sup>th</sup> Presentation was disclosed to the Commission's staff voluntarily, to facilitate the Companies' discussions relevant to FCC Docket Nos. GN 09-51, WC 05-337 and WC 10-90.
3. The September 15<sup>th</sup> Presentation contained confidential information about the Companies' revenues, as well as sensitive commercial information that is ordinarily protected from public disclosure.
4. The confidential financial and commercial information included in the September 15<sup>th</sup> Presentation relates to the provision of wireline local exchange telephone services in the State of California, which is subject to competition from a variety of service providers.

---

<sup>1</sup> 5 U.S.C. § 552(b)(4). See Public Citizen Health Research Group v. FDA, 704 F.2d 1280, 1290-91 (D.C. Cir, 1983).

<sup>2</sup> 47 C.F.R. § 0.457(d).

<sup>3</sup> *Id.* §§ 0.457, 0.459.

5. Public disclosure of the unredacted September 15<sup>th</sup> Presentation would likely result in substantial competitive harm to the Companies as it would allow competitors to evaluate the cash flows and relative financial positions of the Companies and to use this information to their competitive advantage. Knowledge of this financial information could harm the Companies' ability to negotiate favorable terms and conditions for interconnection agreements and other service contracts as well as vendor agreements, allowing business partners and vendors to extract more favorable terms.
6. Financial and commercial information of the type disclosed to the Commission's staff in the September 15<sup>th</sup> Presentation is ordinarily protected from public disclosure and is only discussed between the Companies' senior executives and their auditors on a need-to-know basis, subject to strict confidentiality.
7. Information about the Companies' revenues and cash flows from regulated and non-regulated business activities, per-line breakdown of revenues and support, has not previously been made available to the public. To the extent this information has been shared with third parties, this has been limited to attorneys and accountants/auditors who have an obligation to maintain its confidentiality.
8. The Companies request confidential treatment of the September 15<sup>th</sup> Presentation for an indefinite period of time. The Companies' current and future competitors could otherwise use the confidential information to their competitive advantage and to the Companies' detriment.
9. The Commission normally grants confidential treatment to submissions of sensitive financial and competitive information such as contained in the September 15<sup>th</sup> Presentation. *See* Southwestern Bell Telephone Co. (Transmittal No. 2524), 12 CR 275 [1998]. There is no public interest benefit to be gained by releasing the redacted information to the public and to the Companies' competitors. To the contrary, the public interest is only likely to be harmed by the release of the redacted information because this will allow competitors to have insight into the Companies' operations and financial condition, thereby creating an artificial advantage that could skew the competitive structure of the market.

In order to provide adequate protection from public disclosure, the Commission should strictly limit distribution of the September 15<sup>th</sup> Presentation within the Commission on a "need to know" basis. In the event that any person or entity outside the Commission requests disclosure of the September 15<sup>th</sup> Presentation, the Companies request that they be so notified immediately so that they may oppose such request or take other action to safeguard its interests as deemed necessary.

Contacts concerning this ex parte information may be directed to David Clark at (559) 846-6277 or Linda Burton at (559) 642-0229.

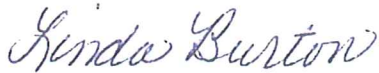
Ms. Marlene H. Dortch, Secretary  
September 21, 2010  
Page 4

Contacts concerning this ex parte information may be directed to David Clark at (559) 846-6277 or Linda Burton at (559) 642-0229.

Respectfully submitted,



David Clark  
Regulatory Manager (Sebastian)



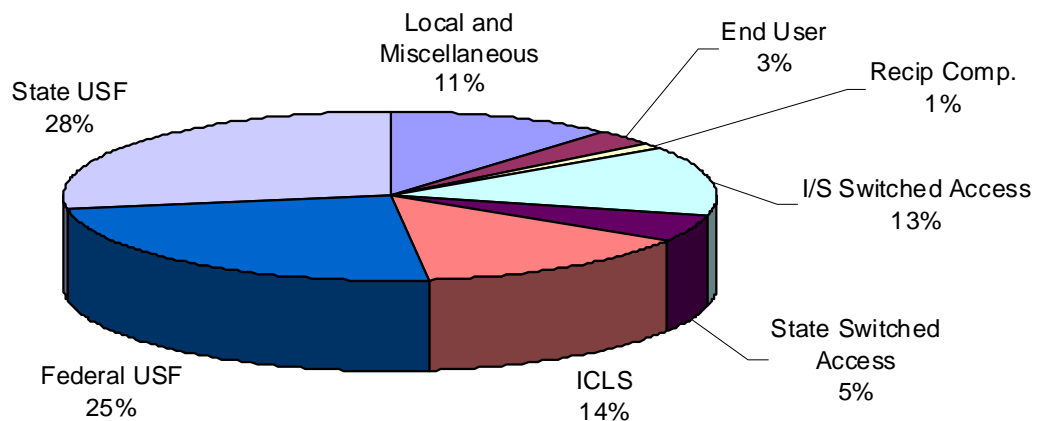
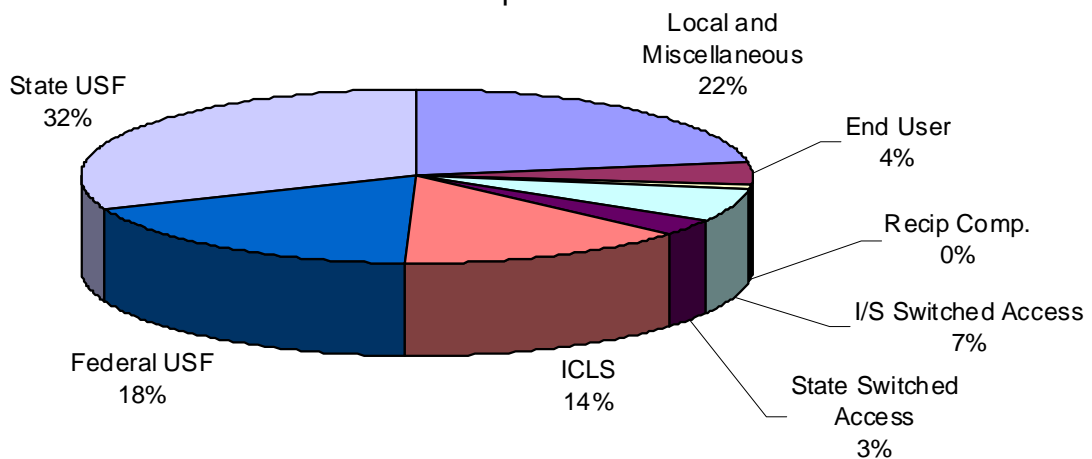
Linda Burton  
Regulatory Manager (Sierra Telephone)

cc: Angela Kronenberg  
Zac Katz  
Jennifer Schneider  
Christy Shewman  
Bradley Gillen  
Amy Bender  
Patrick Halley

att.

## Revenue Per Access Line

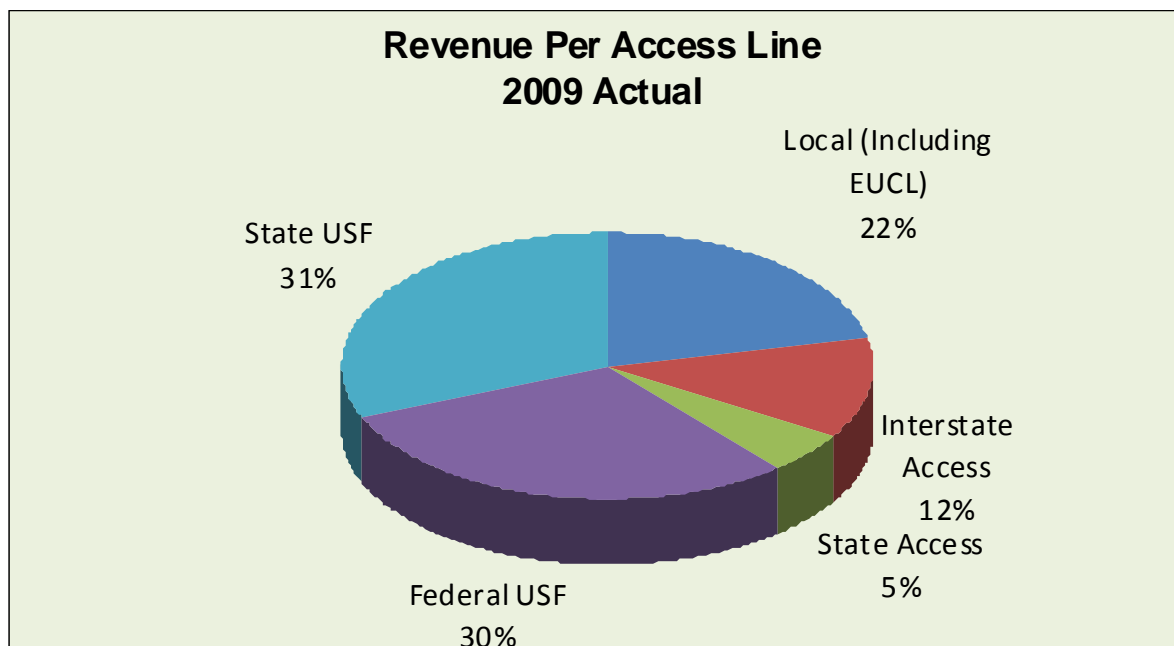
	Kerman	Monthly Avg.		Foresthill	Monthly Avg.
		Per Line			Per Line
Access Lines					
Local and Miscellaneous					
End User					
Recip Comp.					
I/S Switched Access					
State Switched Access					
ICLS					
Federal USF					
State USF					
Total					



Sierra Telephone Company, Inc.  
542338

## Revenue Per Access Line - 2009

Revenue Category	Monthly Revenue Per Access Line
Local (Including EUCL)	
Interstate Access	
State Access	
Federal USF	
State USF	
<u>Total</u>	



Federal USF consists of all current Federal support funds: High Cost Loop, Interstate Common Line Support, Local Switching Support, Safety Valve Support, & Safety Net Additive

## DSL Penetration of Lifeline Customers/Customers

### Kerman

USOC	Description	% Lifeline	%Broadband
DSL R6.0/DSLBB/D SLR/DSL RB	High Speed Internet	26.25%	26.16%
DSL R1.5	High Speed Internet 1.5MB	19.64%	19.57%
DSL R10.0	High Speed Internet 10MB	0.23%	0.23%
DSL R20.0	High Speed Internet 20MB	0.19%	0.19%
		46.30%	46.14%

\* Note that discounts are applied for terms, bundles, etc. \$5-\$15

Note that \_\_\_% of all access lines are Lifeline / \_\_\_% of all residence access lines

Note that \_\_\_% of all access lines take broadband/\_\_\_% of Customers (cnt MLB as 1)

Note that 100% of customers have access to Broadband

### Foresthill

USOC	Description	% Lifeline	%Broadband
DSLBB	High Speed Internet 4 MB	36.48%	6.83%
DSL R1.5	High Speed Internet 1.5MB	14.78%	2.77%
DSL R10.0	High Speed Internet 10MB	0.31%	0.06%
DSL R6.0	High Speed Internet 6MB	1.26%	0.24%
		52.83%	9.89%

\* Note that discounts are applied for terms, bundles, etc. \$5-\$15

Note that \_\_\_% of all access lines are Lifeline / \_\_\_% of all residence access lines

Note that \_\_\_% of all access lines have broadband/\_\_\_% of Customers (cnt MLB as 1) \_\_\_\_\_

Note that 97% of customers have access to Broadband

### Sierra

Sierra has Broadband availability to 99% of is customers

Note that \_\_% of Sierra's Lifeline Customers have Broadband

Note that \_\_\_% of all access lines subscribe to Broadband

Note that the standard service is 6 MB download speed and 1 MB upload speed

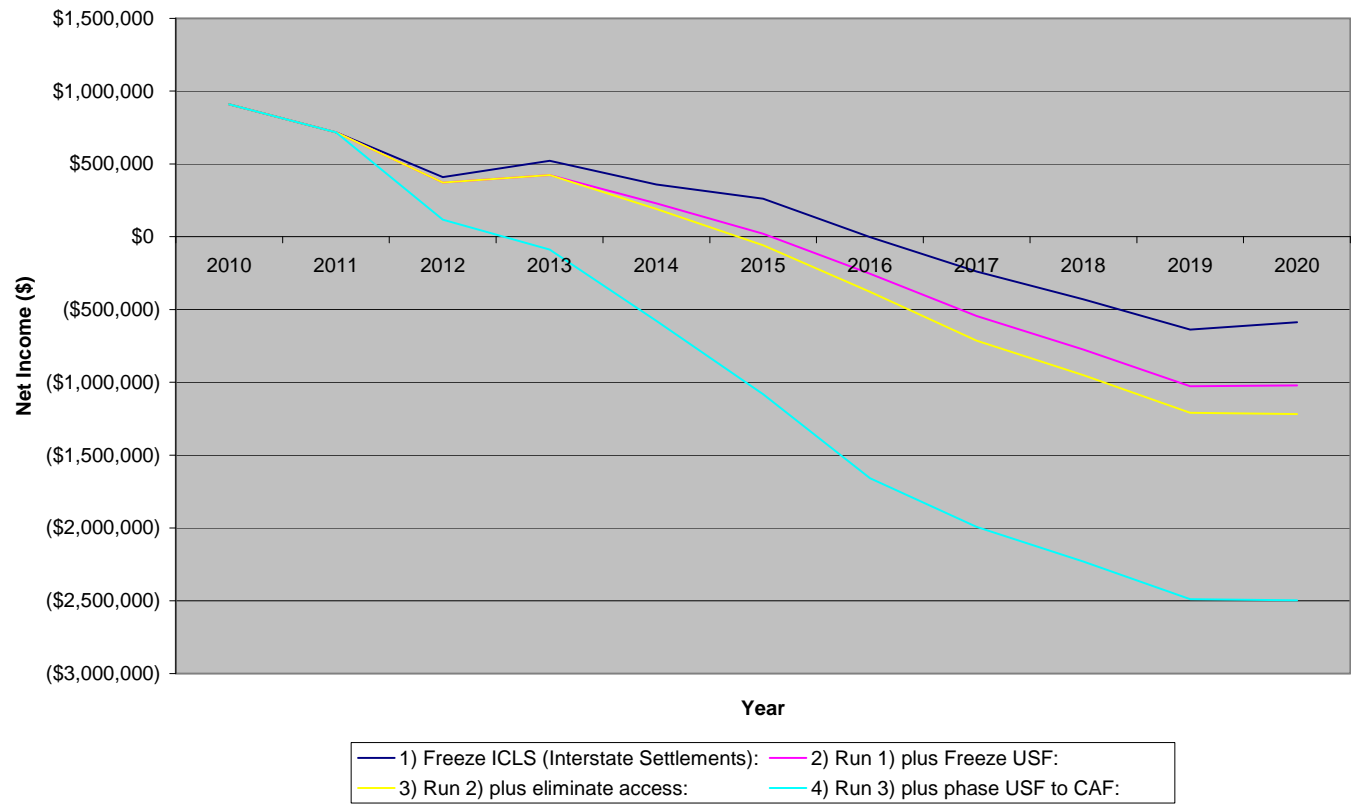
## Company Earnings Levels

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Estimatec 2010</u>
Kerman Telephone	7.13%	8.71%	9.51%	9.90%
Foresthill Telephone	14.59% *	8.88%	8.94%	10.39%
Sierra Telephone				

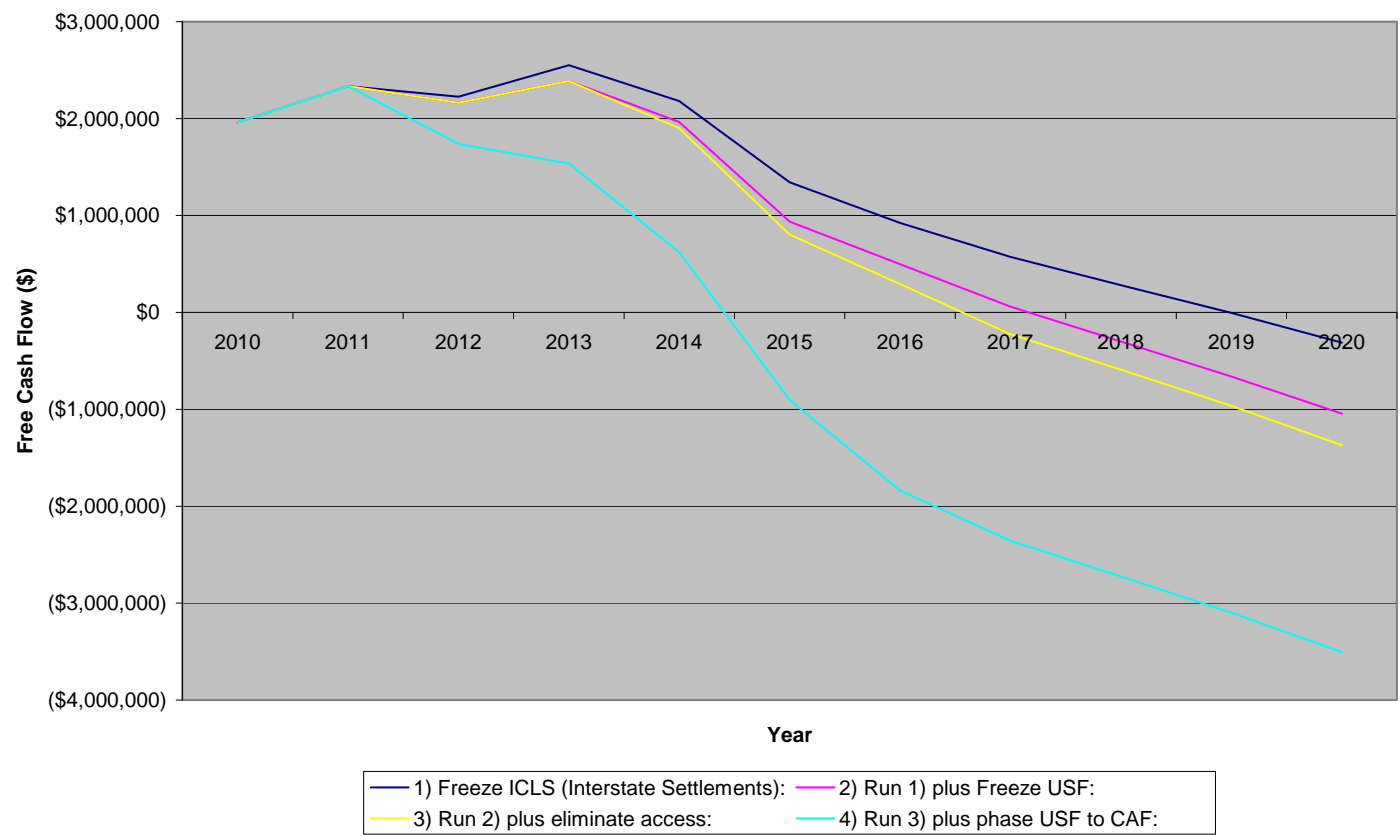
\* Note that Foresthill was acquired by Sebastian in 2005. At that time the company had no DSL or even custom calling Features. Its connection with the outside world was via manufacturer discontinued microwave. Sebastain proposed numerous upgrades through a State rate case that became effective in 2007. Although the state high cost fund support associated with this rate case was effective in 2007, it took a period of time to ramp up the employee base and install the planned investment in facilities justified in that case. The result was a temporary overearnings while Foresthill was brought up to industry standards.



Net Income Impacts of NBP  
Kerman Telephone



Free Cash Flow impacts from NBP  
Kerman Telephone



## Impact of Broadband Reform on Rural ILEC's

## Non-Regulated Activities in ILEC's Study Area

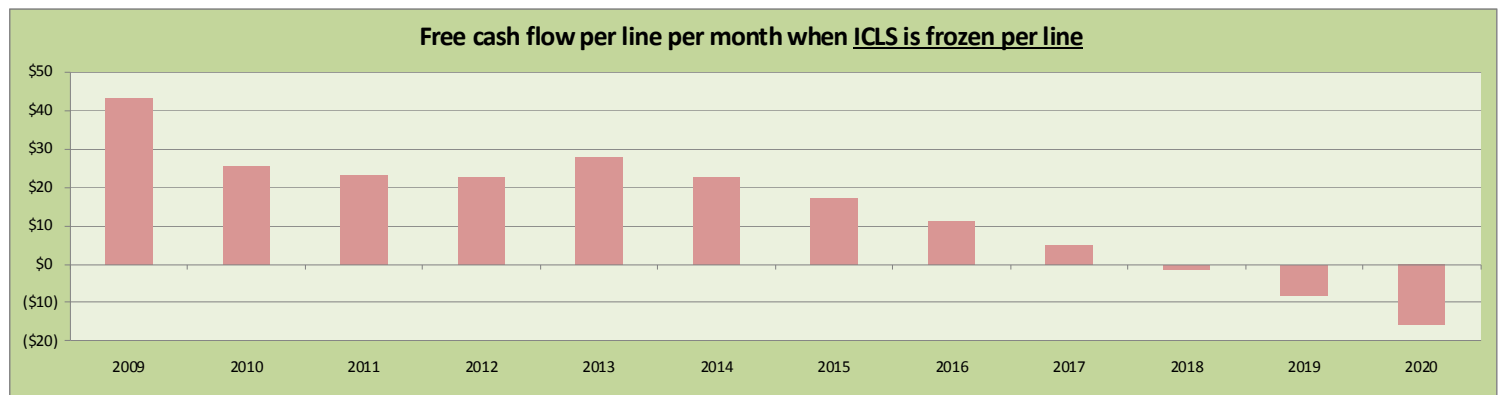
		(INSTRUCTIONS ON COLUMN T)										IF PROJECTION DATA IS NOT AVAILABLE, LEAVE BLANK				
Line	Description	YEAR : 2007	YEAR : 2008	YEAR : 2009	YEAR : 2010	YEAR : 2011	YEAR : 2012	YEAR : 2013	YEAR : 2014	YEAR : 2015	YEAR : 2016	YEAR : 2017	YEAR : 2018	YEAR : 2019	YEAR : 2020	YEAR : 2021
	<b>Non-Regulated Revenues:</b> Projected Video Revenues: Estimated Annual % Increase (Decrease) If Actuals are Unavailable Amount to be carried forward into calculation:															
LN 1																
	Projected Internet Revenues Estimated Annual % Increase (Decrease) If Actuals are Unavailable Amount to be carried forward into calculation:															
LN 2																
	Projected Long Distance Revenues: Estimated Annual % Increase (Decrease) If Actuals are Unavailable Amount to be carried forward into calculation:															
LN 3																
	Projected Other Nonregulated Revenues: Estimated Annual % Increase (Decrease) If Actuals are Unavailable Amount to be carried forward into calculation:															
LN 4																
LN 5	<b>Non-Regulated Revenues:</b>															
	<b>Non-Regulated Expenses:</b> Projected Video Expenses: Estimated Annual % Increase (Decrease) If Actuals are Unavailable Amount to be carried forward into calculation:															
LN 6																
	Projected Internet Expenses: Estimated Annual % Increase (Decrease) If Actuals are Unavailable Amount to be carried forward into calculation:															
LN 7																
	Projected Long Distance Expenses: Estimated Annual % Increase (Decrease) If Actuals are Unavailable Amount to be carried forward into calculation:															
LN 8																
	Projected Other Nonregulated Expenses: Estimated Annual % Increase (Decrease) If Actuals are Unavailable Amount to be carried forward into calculation:															
LN 9																
LN 10	<b>Non-Regulated Expenses (LN 6 Through LN 9):</b>															
	<b>Effective Income Tax Rate (Combined Federal and State):</b>															

# REDACTED – FOR PUBLIC INSPECTION

Sierra Telephone Company, Inc.  
542338

## Free cash flow per line per month when ICLS is frozen per line

Amounts in thousands	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Free Cash Flow = EBITDA - CAPEX:												
Regulated Revenue - <i>ICLS Frozen in 2010</i>												
Regulated Expense												
Interest, Tax & Depreciation added back												
EBITDA												
CAPEX (Change in TPIS)												
Annual Free Cash Flow												
Free Cash Flow Per Line Per Month	\$43	\$25	\$23	\$23	\$28	\$23	\$17	\$11	\$5	(\$2)	(\$8)	(\$16)



## Free cash flow per line per month when all High Cost USF is frozen per line

Amounts in thousands	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Free Cash Flow = EBITDA - CAPEX:												
Regulated Revenue - <i>All Federal USF Frozen</i>												
Regulated Expense												
Interest, Tax & Depreciation added back												
EBITDA												
CAPEX (Change in TPIS)												
Annual Free Cash Flow												
Free Cash Flow Per Line Per Month	\$43	\$25	\$26	\$28	\$33	\$28	\$22	\$16	\$9	\$2	(\$5)	(\$13)

